



November 18, 2020

Short-term COVID Pain Versus Long-term Vaccine

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Weekly Update



Market Outlook



COVID-19 Outbreak



Economic Impact and Policy Response



Portfolio Positioning

Major Developments This Week

- Vaccine breakthrough by Pfizer/BioNTech and Moderna 90%+ effective.
- Economy and markets unconditionally dependent on vaccine ending the pandemic.
- Next few months economic growth rate likely to moderate, 2H 2021 outlook looks good.
- Stocks rallied to another record high based on earnings and vaccine prospects.
- 2021 earnings projected to be ~10% higher than all-time high earnings.
- Valuation of equities high and likely to remain so based on strong earnings growth, low interest rates.
- Jobs regained over the next year will likely bring unemployment from present 11 million to 9 million.
- Stimulus talks remain uncertain in timeline and amount and causing economic slowing.
- Gridlock is good.
- Monetary and fiscal policy decisions remain dominate forces to economic activity.
- COVID cases continue at high levels in USA and Europe.
- COVID hospitalizations and fatalities rising as well. Next few months challenging.

CNR Progress Playbook

Investment Committee considering:

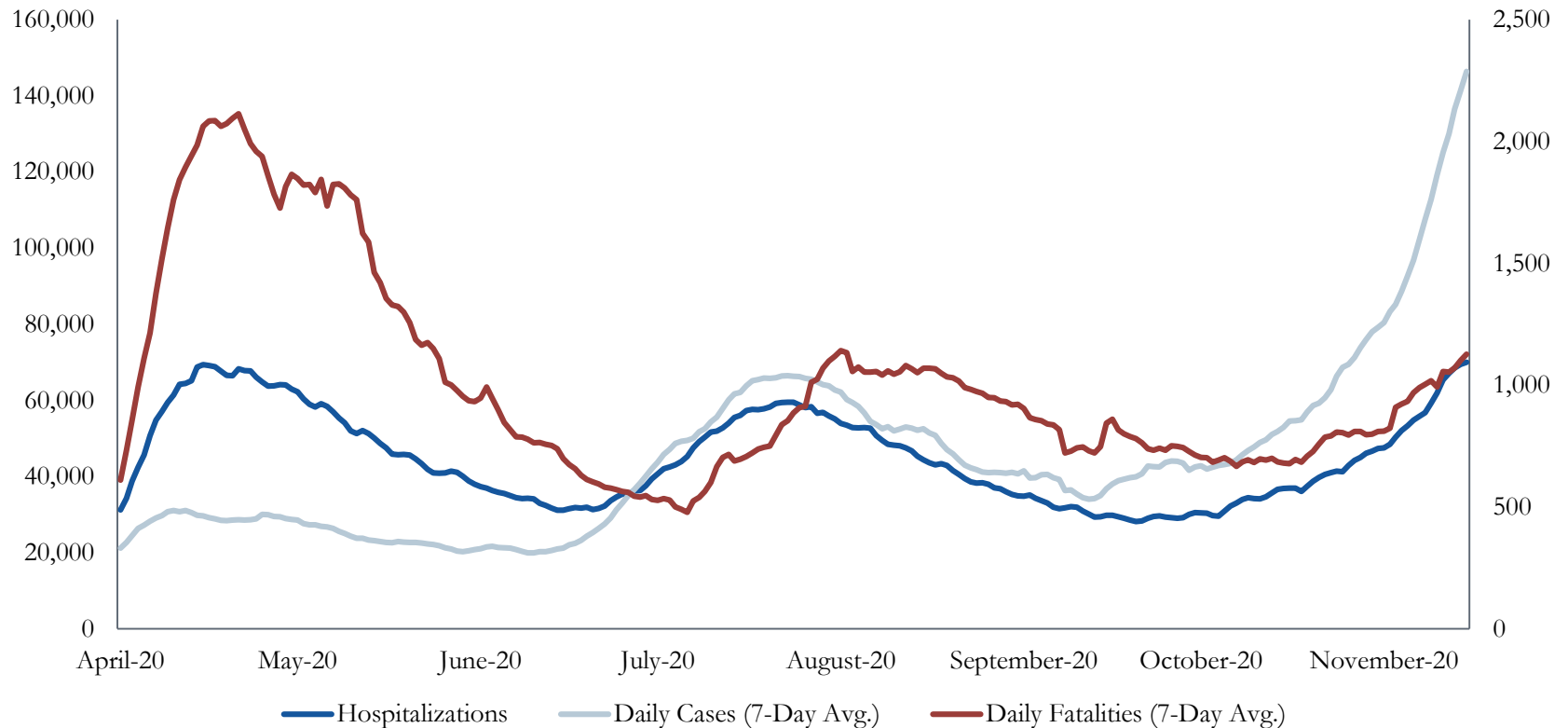
- Despite negative COVID data, markets focused on unexpectedly good vaccine results.
- Transition of economy by mid-year 2021 to the post COVID normalcy.
- Equity emphasis shifting more broadly to non-pandemic driven businesses.
- Employment gains likely to pick up in 2H2021 supporting consumer spending.
- Stay fully committed to USA vs European equities.
- Staying focused on favorite themes in a return to normalcy, lower for longer interest rate world.
- Expect High Dividend equities to generate much better returns in 2021 vs 2020.
- Stay fully committed to High yield bonds, taxable and municipal.
- Underweight Investment grade bonds due to very low total returns.
- Potential for multi-year economy expansion ahead.
- Trillions searching for good returns remains untapped in consumer and business hands.

Source: CNR Research.

National Cases, Hospitalizations & Fatalities

- Hospitalizations have surpassed previous peak
- Increases widespread, but largest contribution from the Midwest

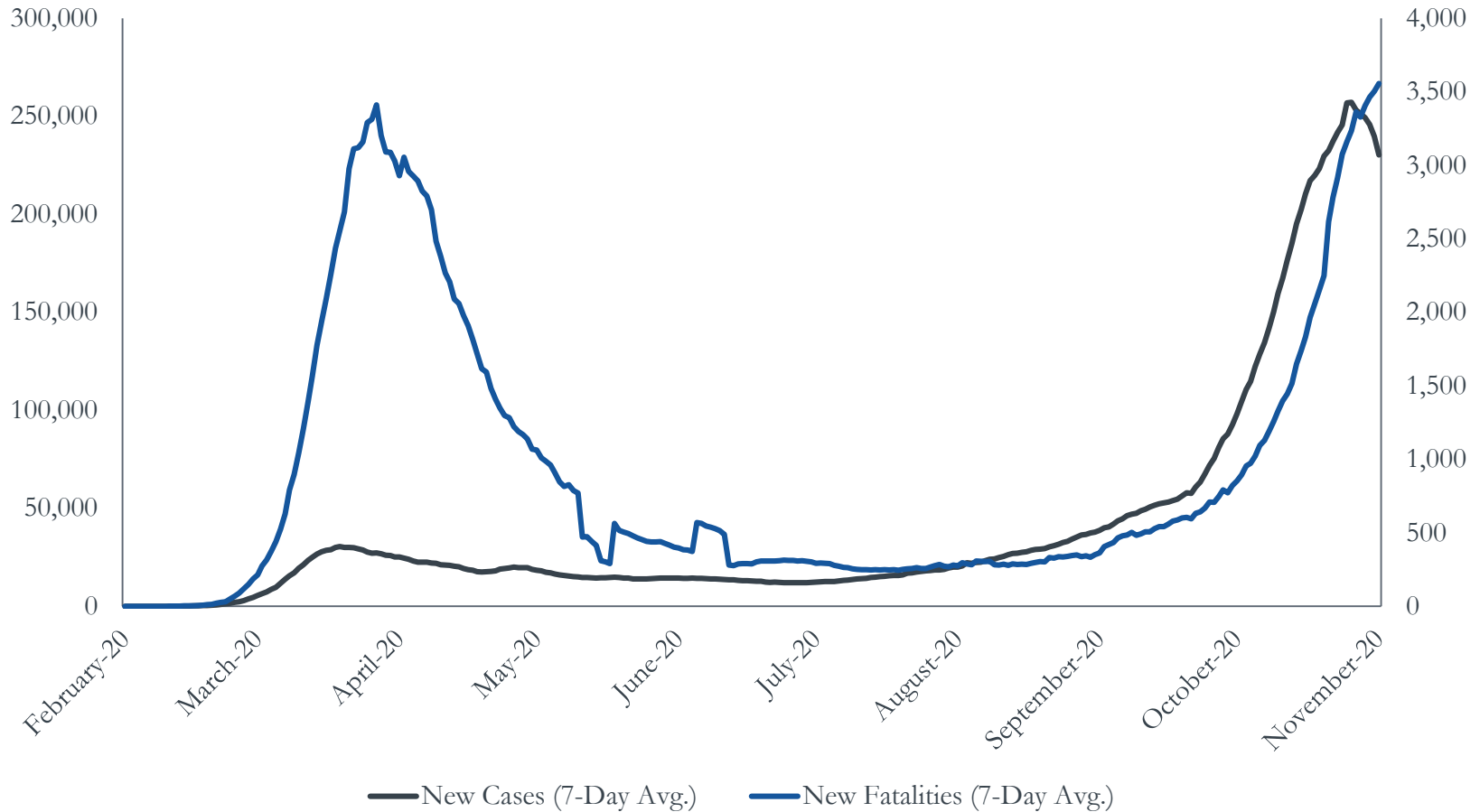
U.S. New Cases, Hospitalizations, and New Fatalities



Hospitalization and fatality data source from the COVID Tracking Project and supplemented by estimated hospitalization data from IHME where no hospitalization data was officially reported.

Europe's Surge Has Reached Prior Peak Levels

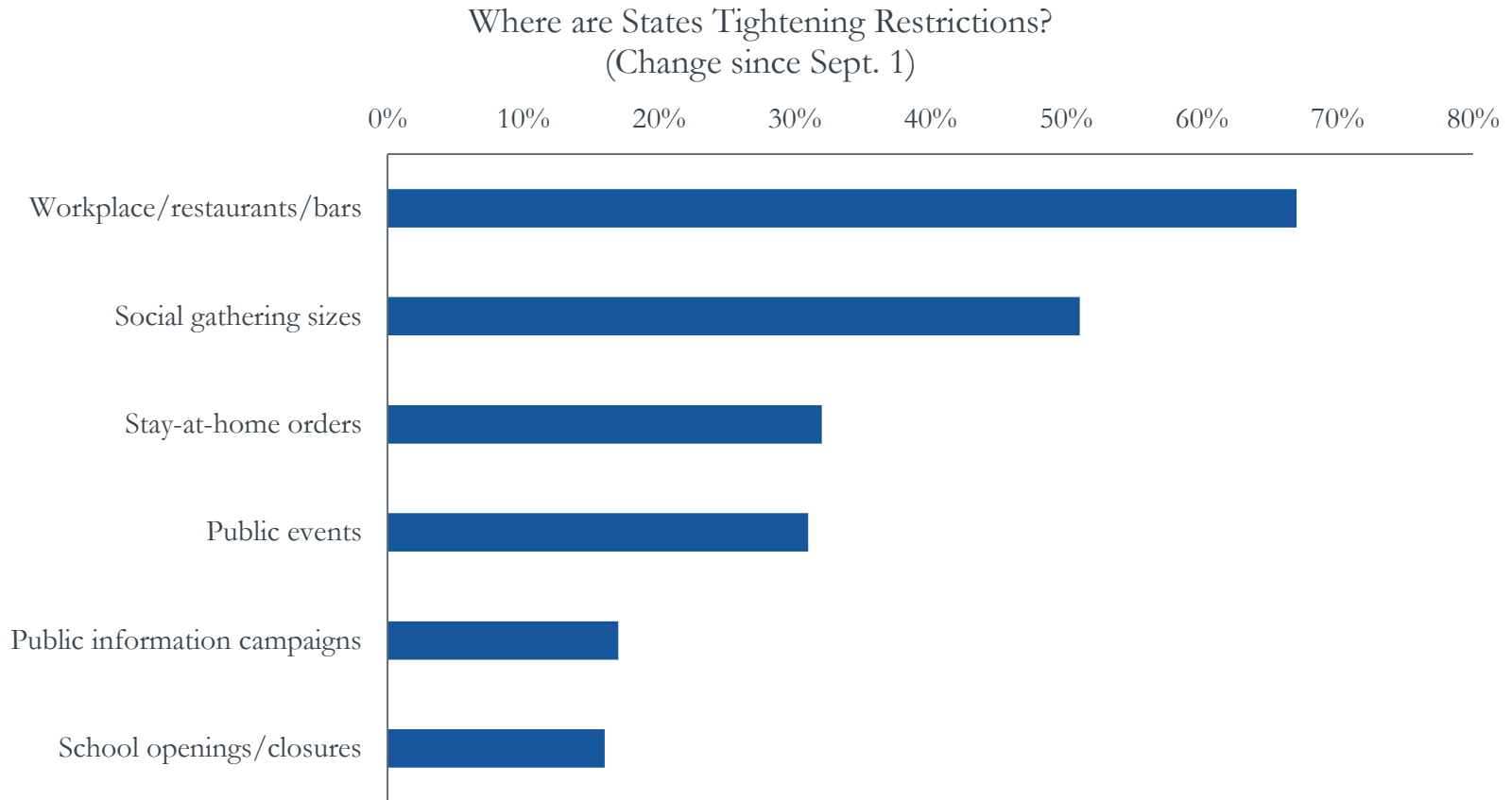
Europe: Cases and Fatalities



Source: European Centre for Disease Prevention and Control.

Targeted not Widespread Restrictions on Activity Expected

- So far, states have targeting indoor businesses and activities such as bars and restaurants
- A return to nationwide lockdowns is not expected at this point.

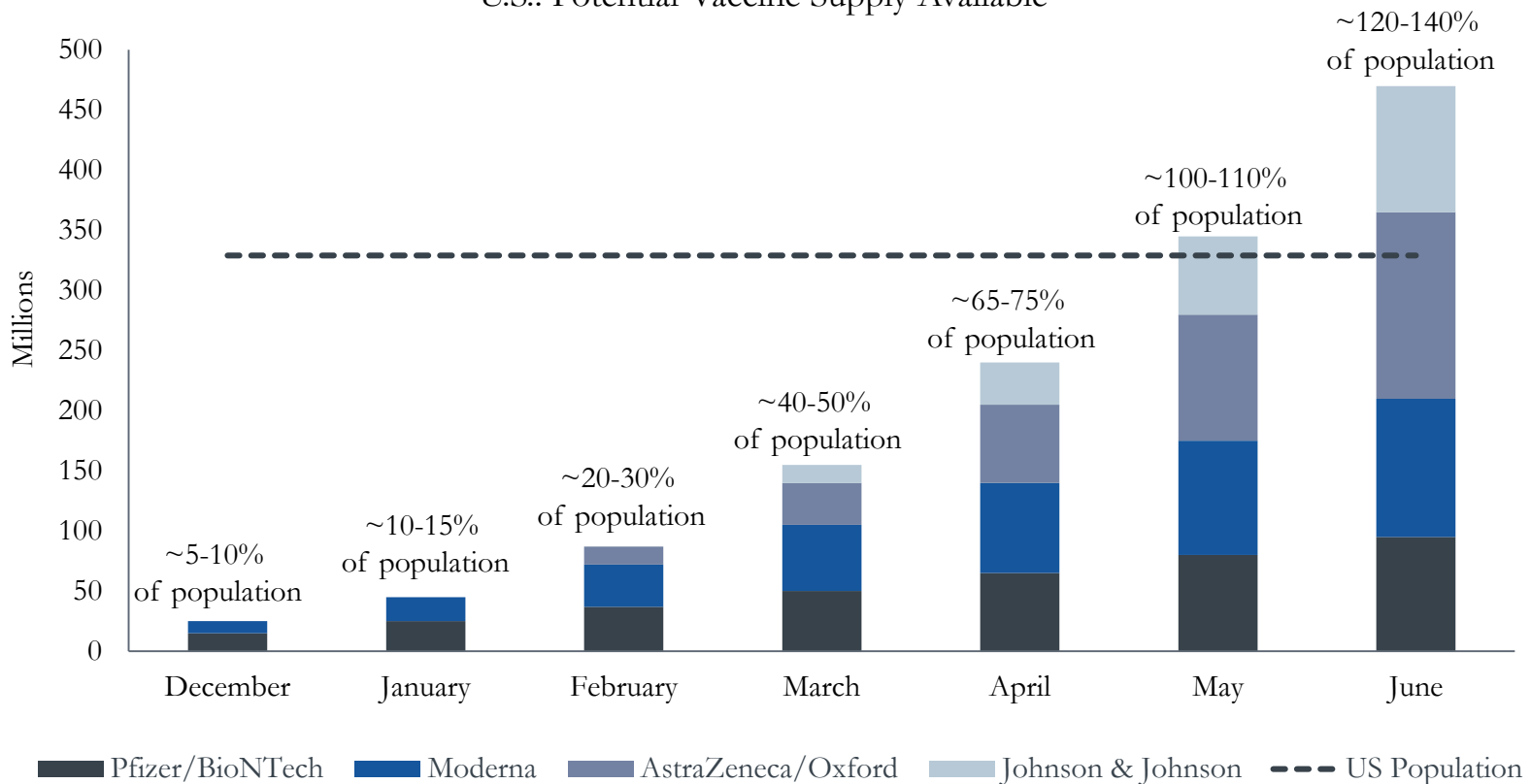


Source: University of Oxford.

Vaccines Expected to Become Widely Available by Spring

- Limited to high risk groups for 2-3 months, then expanded to broader population
- Adequate supply contingent on multiple vaccines being successful

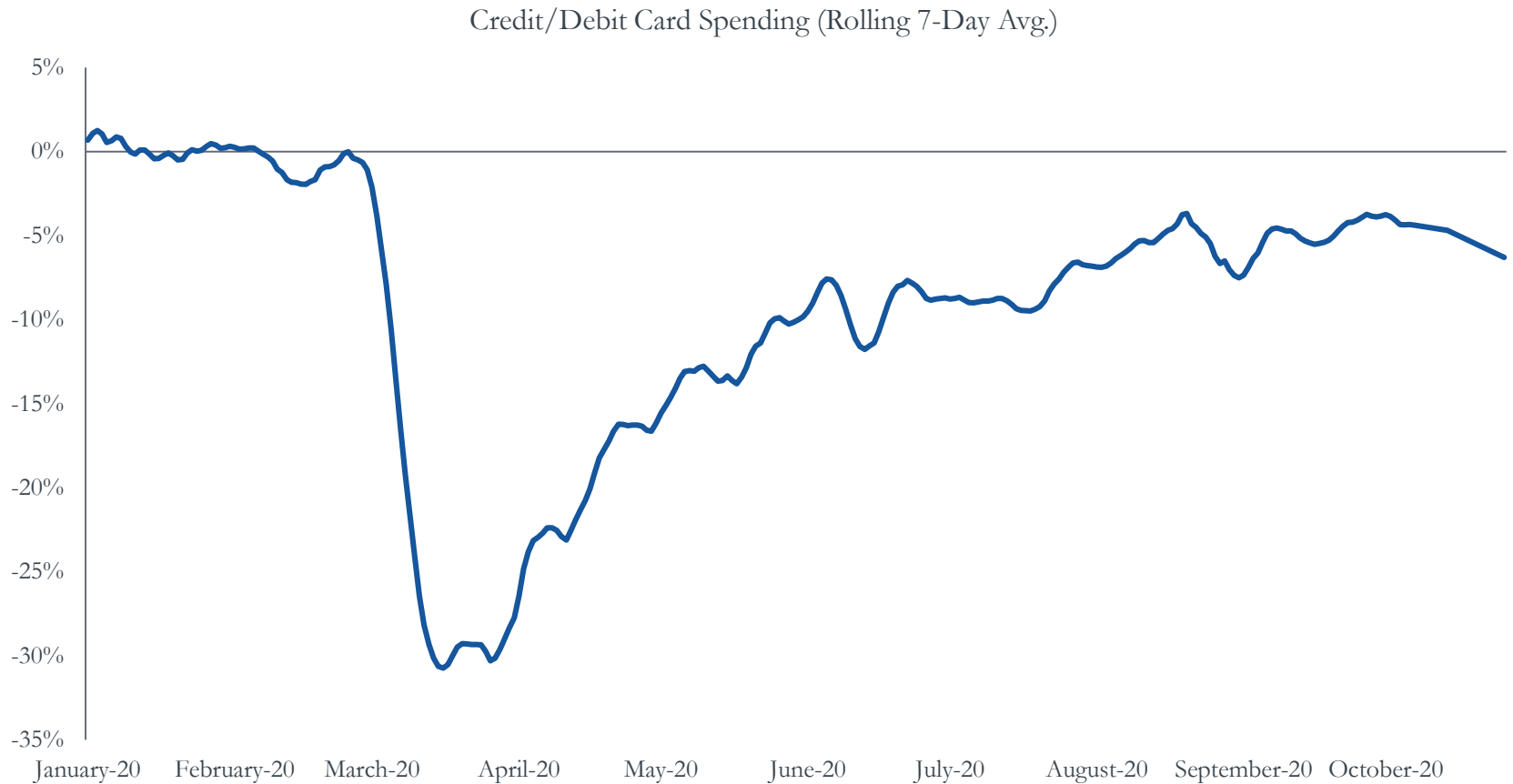
U.S.: Potential Vaccine Supply Available



Source: CNR Research.

Consumer Spending Improvement Slows In The Short-term

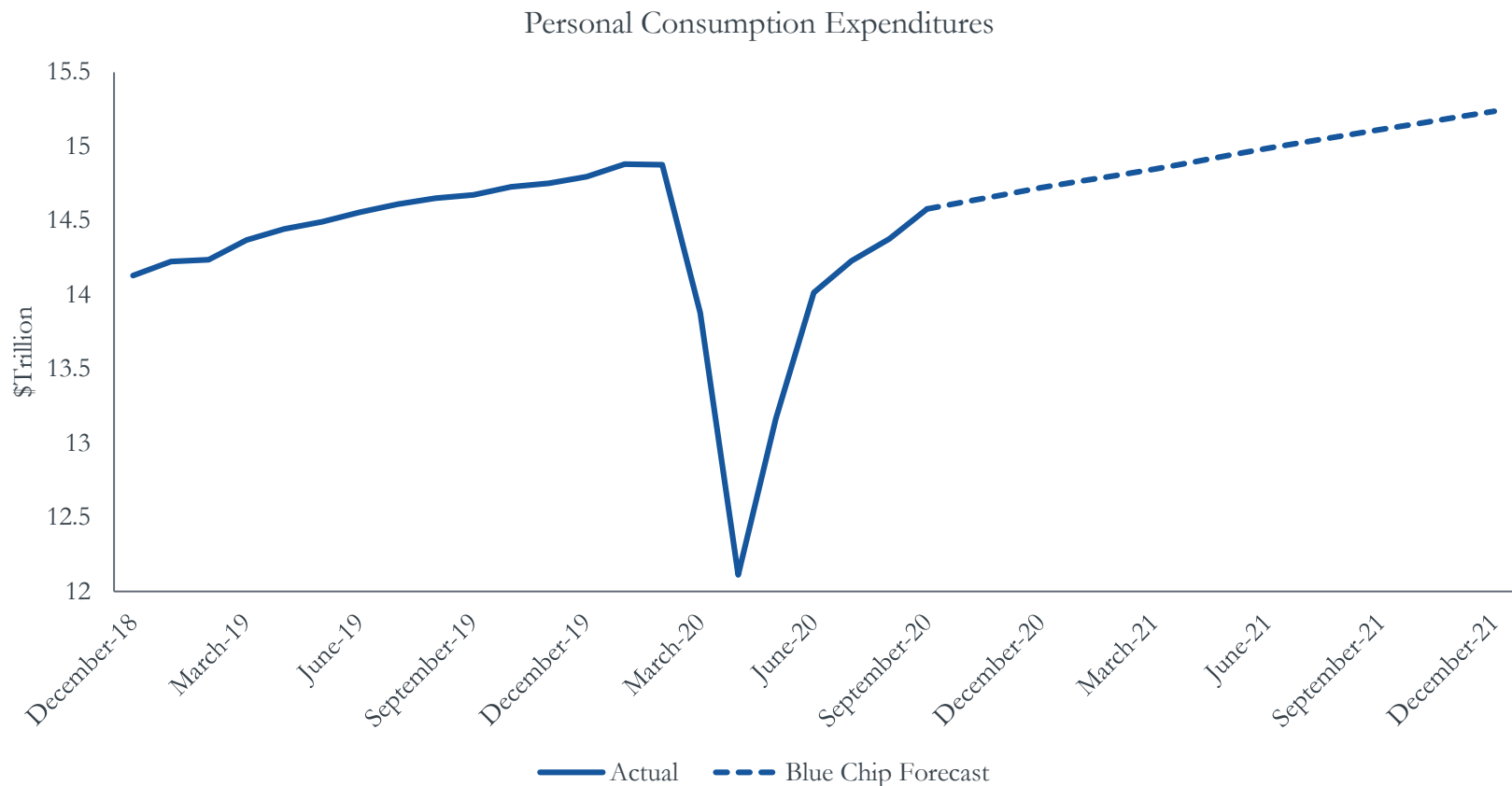
- Near-term slowdown in consumer spending related to virus spread, local restrictions



Source: Affinity Solutions, Opportunity Insights.

Consumer Spending Expected To Improve Through 2021

- With vaccine on the way, decreases in consumer activity expected to be temporary
- Continued progress expected over the longer term

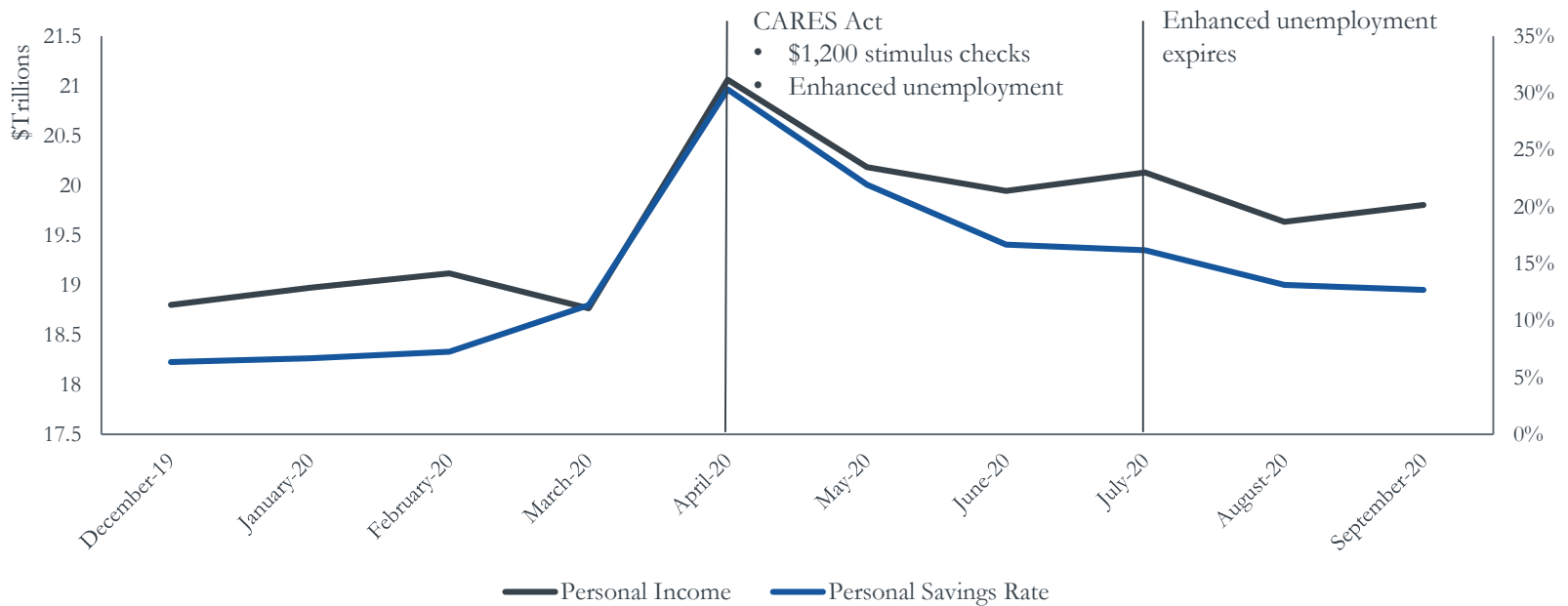


Source: Bloomberg.

Income and Savings: Jobs vs. Stimulus

- Personal income has held up as unemployment benefits expire – improving jobs market
- More stimulus likely needed
- CARES year-end expirations: Extension need for enhanced unemployment benefits, eviction stays, loan forbearance

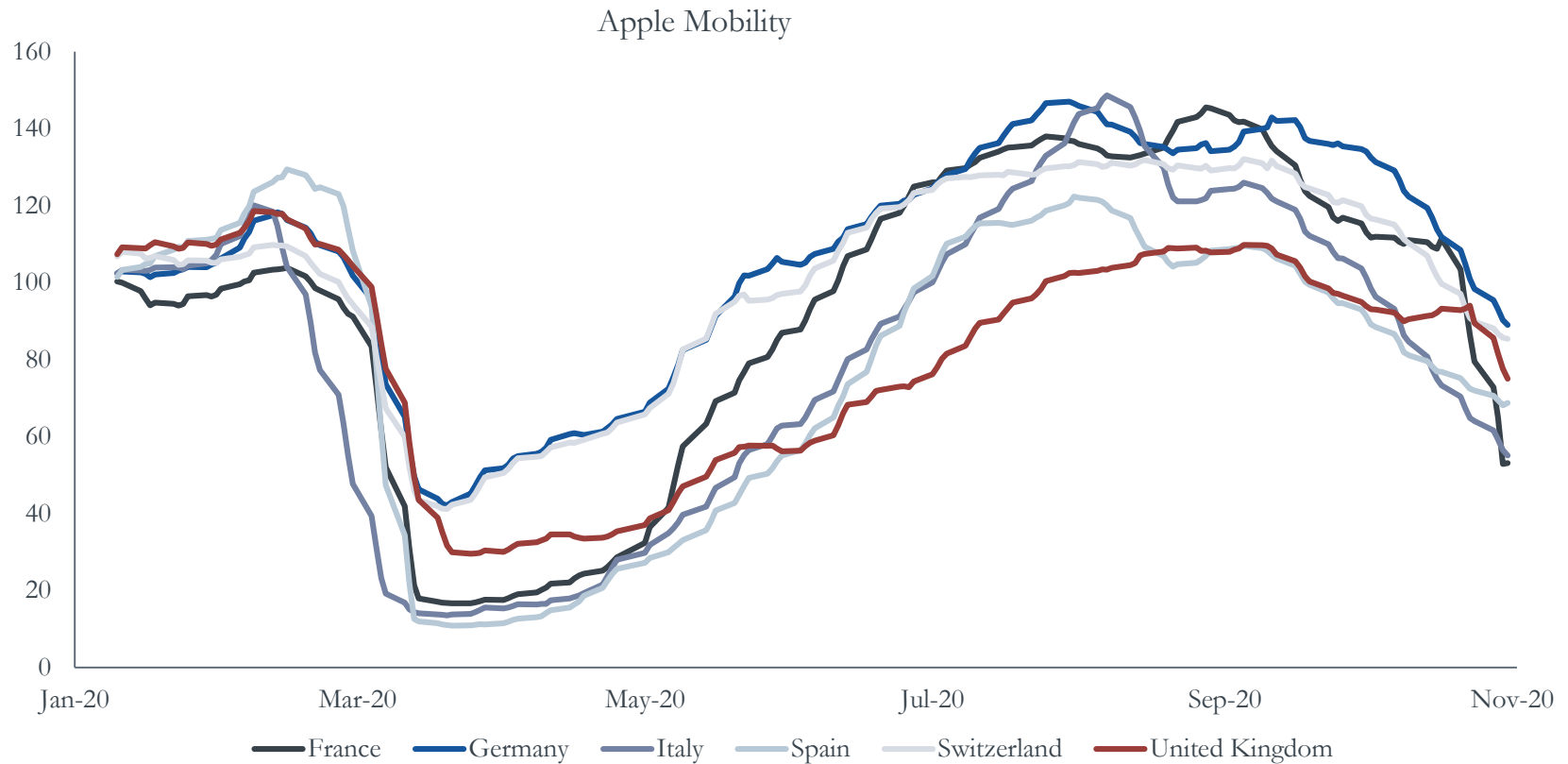
Personal Income and Savings



Source: Bloomberg.

European Restrictions Take Their Toll

- Tighter restrictions have weighed on mobility
- European consumer confidence expected to decline

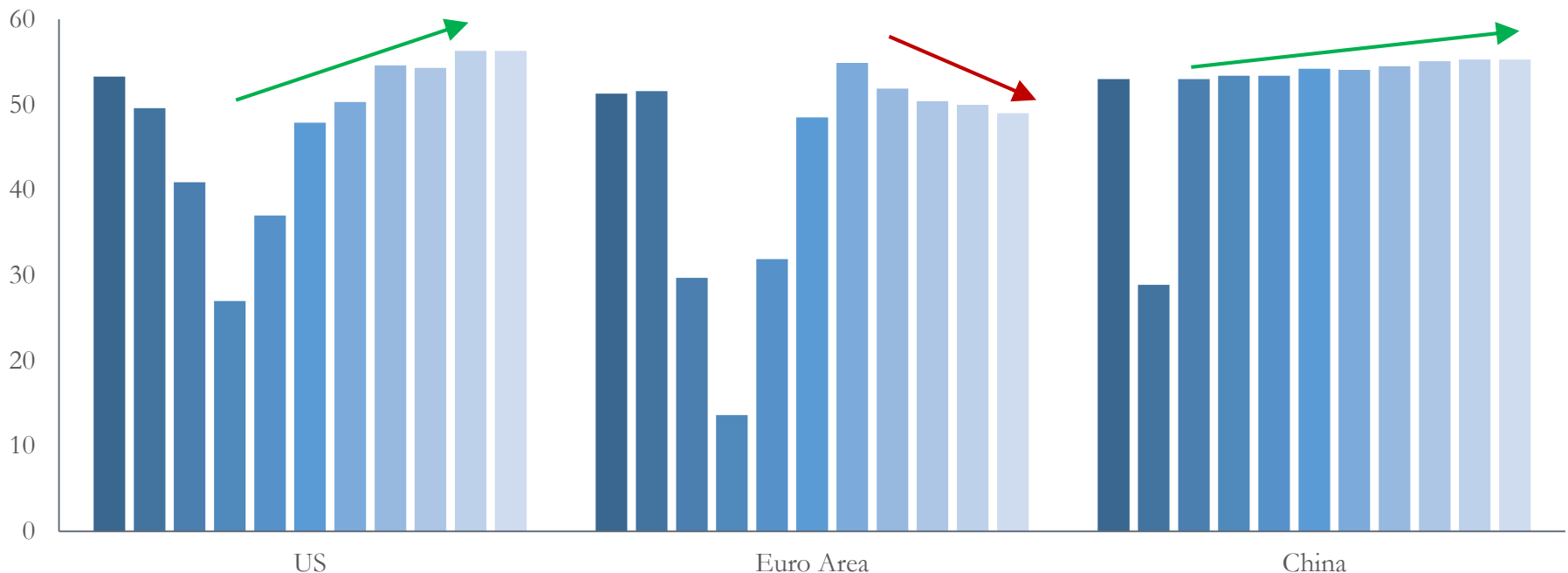


Source: Apple.

Global Outlook Becoming More Divergent

- Euro outlook has darkened with 2nd waves prompting widespread restrictions and reduced fiscal support
- US looks more resilient, given sharper recovery and more targeted restrictions.
- China continues to lead global recovery, amid stimulus and relatively effective virus containment

2020 Monthly Global Composite PMIs

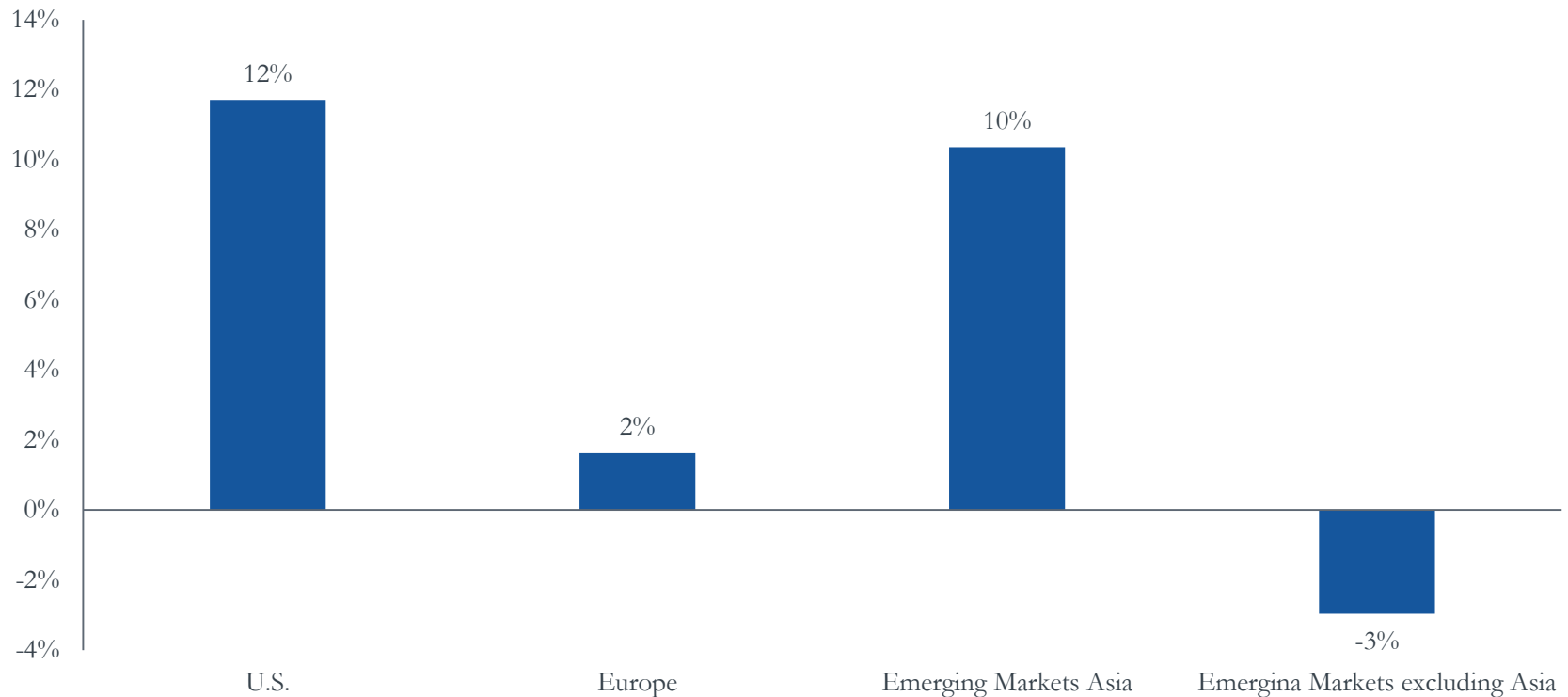


Source: Markit, Bloomberg.

U.S. and Emerging Markets Asia Continue to Outperform

- U.S. better positioned than Europe for short-term recovery and long-term economic growth
- Emerging markets in Asia present a more positive growth outlook than other emerging markets

Regional Equity Market Performance: 5 Years As of 10/31/2020

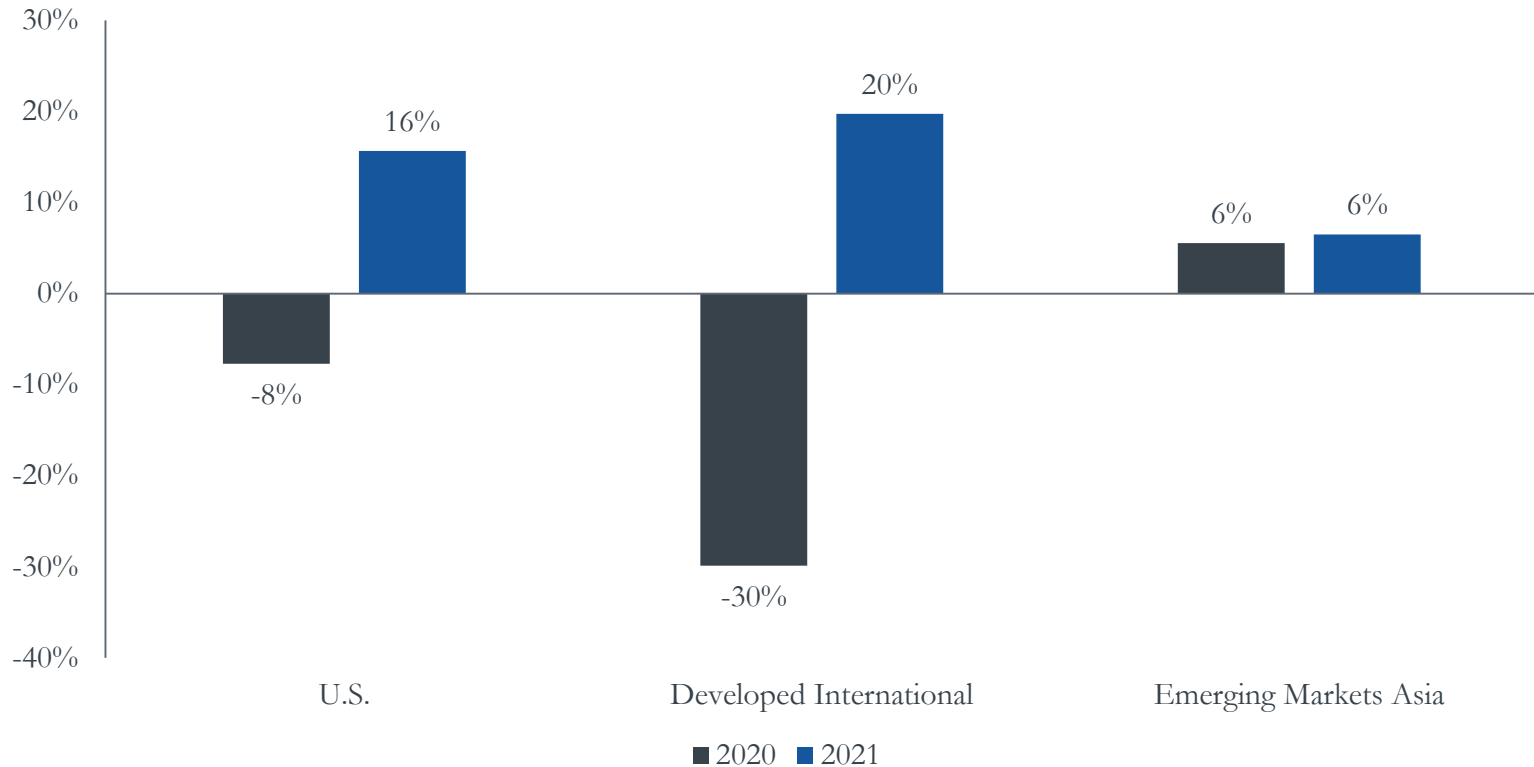


Source: Bloomberg. U.S: S&P 500 Index. Europe: MSCI Europe Index. Emerging Markets Asia: MSCI Emerging Markets Asia Index. Emerging Markets Excluding Asia: MSCI Emerging Markets Excluding Asia Index.

Stock Market Looking Ahead To Improved 2021 Earnings

- Earnings reports suggest a better-than expected recovery in corporate profits in 2020
- 2021 earnings expected to be above 2019 earnings

NDR Forecast Earnings Growth: 2020 and 2021



Source: CNR Research, NDR.

Framework For Portfolio Development to Achieve Goals



Investment Universe – Prioritize Mindset to Goals

Instead of Stocks & Bonds – Think of “Sources of Return” from all Asset Classes

Dedicated Growth Strategies

- U.S. Equities: Large and Mid/Small Cap
- International Equities: Developed and Emerging

Growth and Income Strategies

- High Dividend and Income Equities
- Opportunistic Income

Safety of Principal

- Core Fixed Income

Alternative Investments

- Income
- Growth/Total Return
- Diversification

Achieving Goals in a Low Interest Rate Environment Requires Flexible Thinking

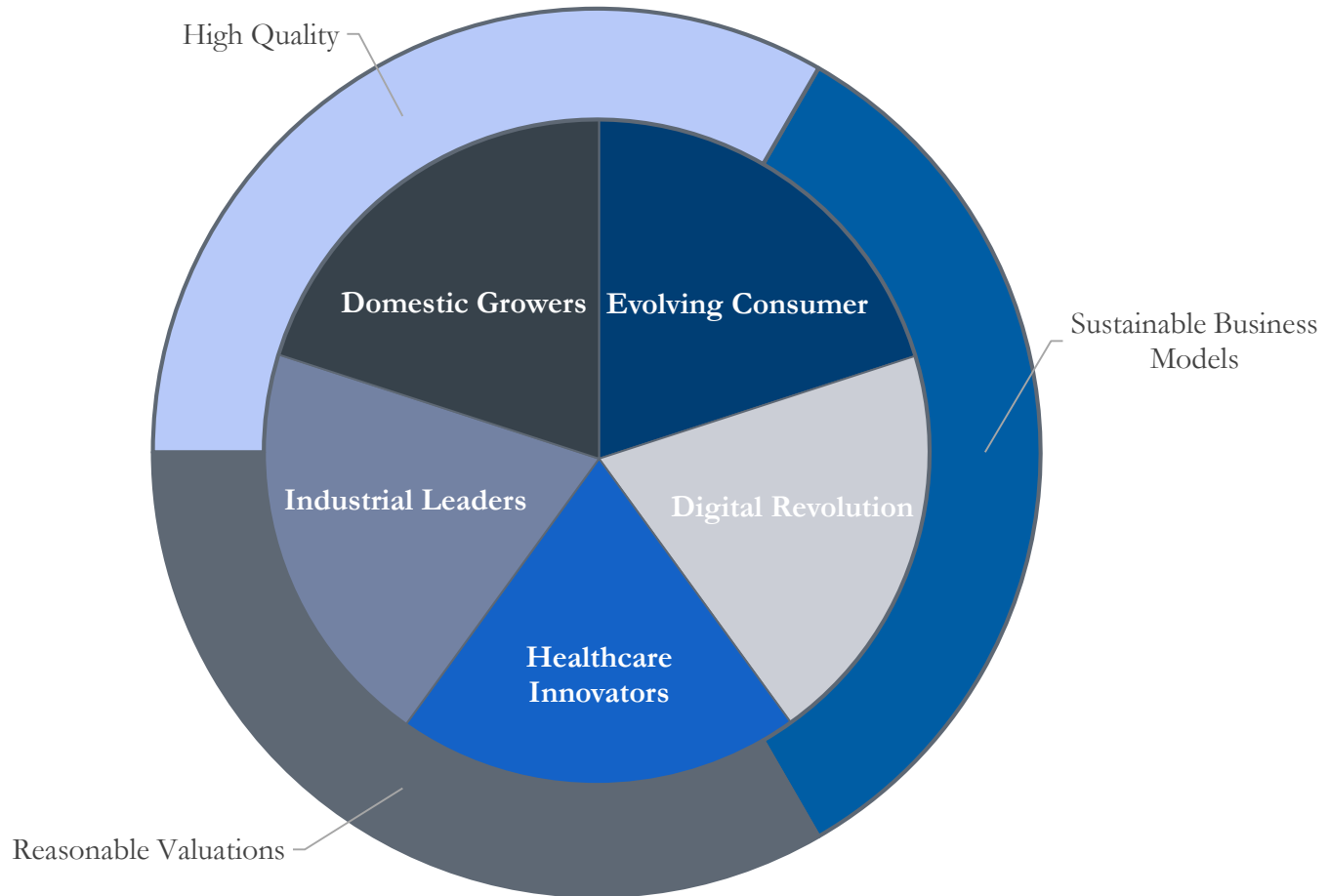
Our Stock Selection Process

Industry
Groups &
Secular Themes

Attractive
Companies

Valuation

Focusing on High Quality Stocks in Line with Five Key Themes



Source: CNR Research.

Core Equities: Pandemic Accelerated Long-Term Trends

Evolving Consumer

- E-Commerce
- Home products and entertainment

Digital Revolution

- Software & Services
- Telecom Services

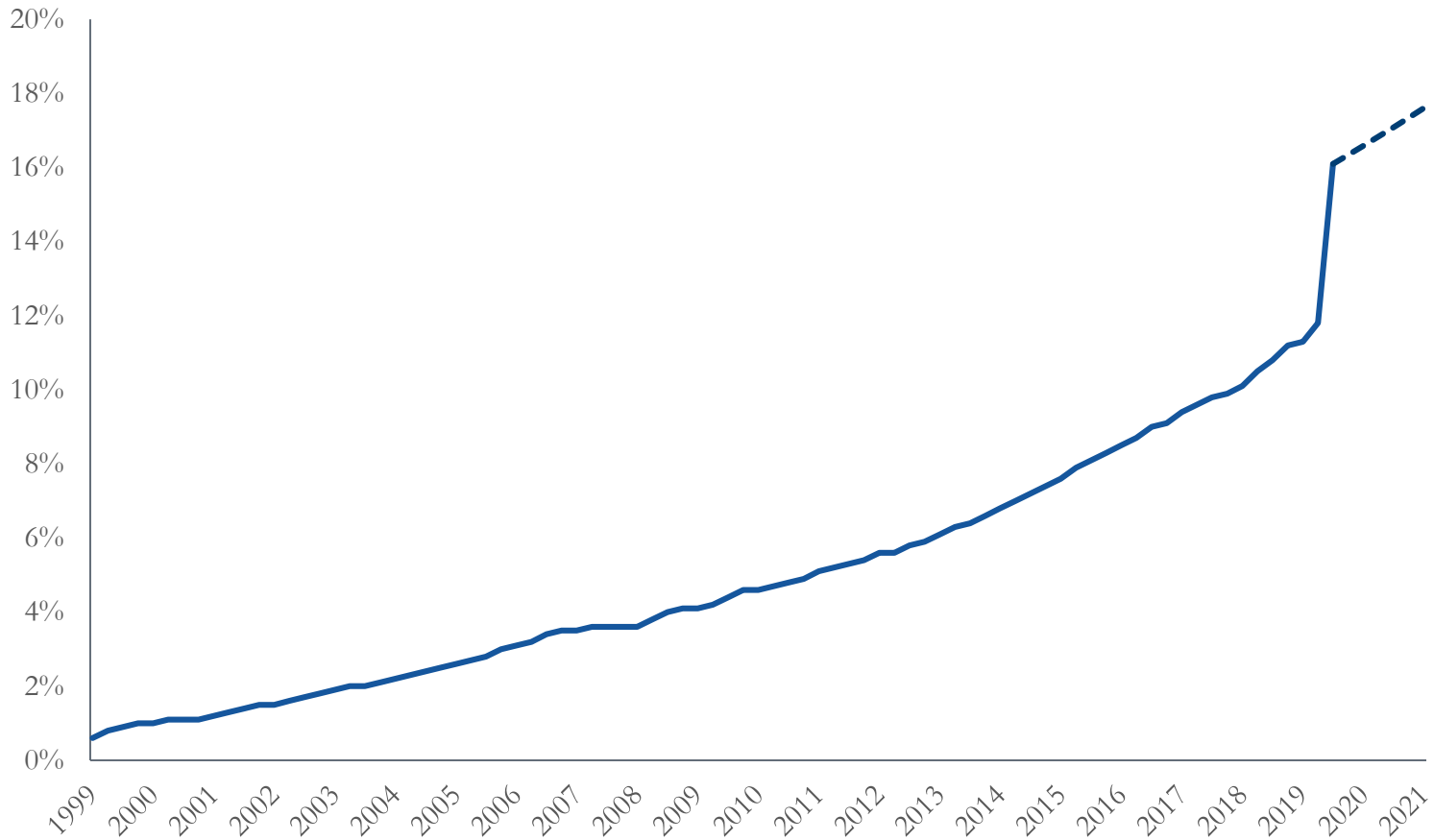
Healthcare Innovators

- Healthcare Equipment
- Support of Drug Development

Source: CNR Research.

Pandemic Accelerated Long-term Trends

E-Commerce Sales as Percent of Total



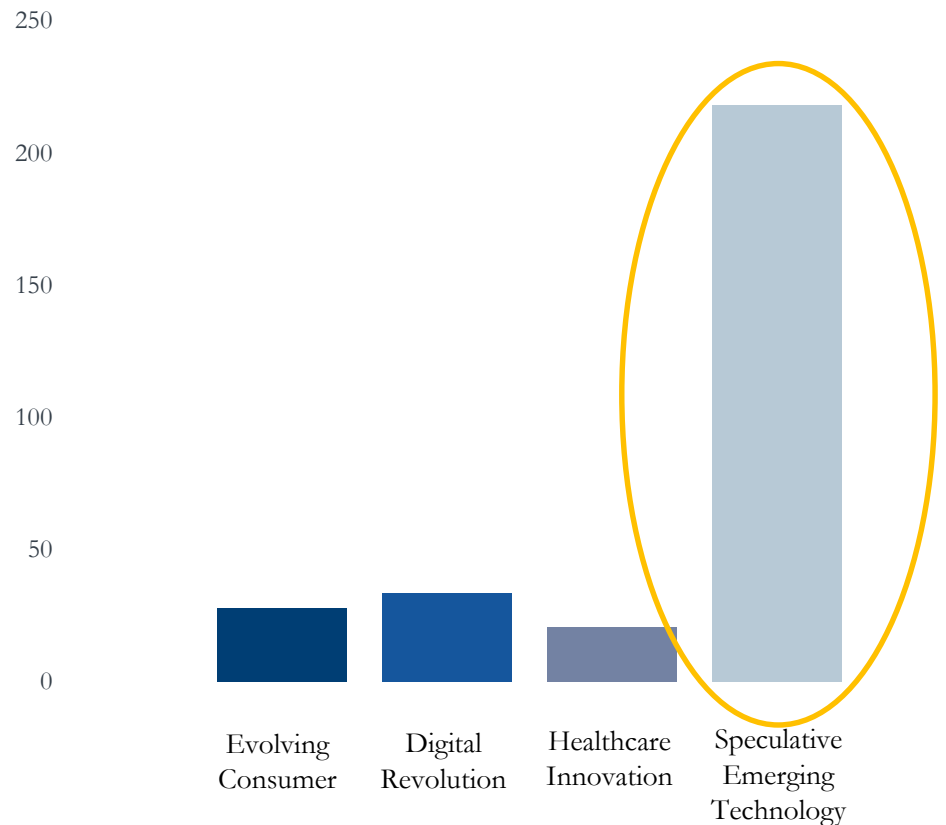
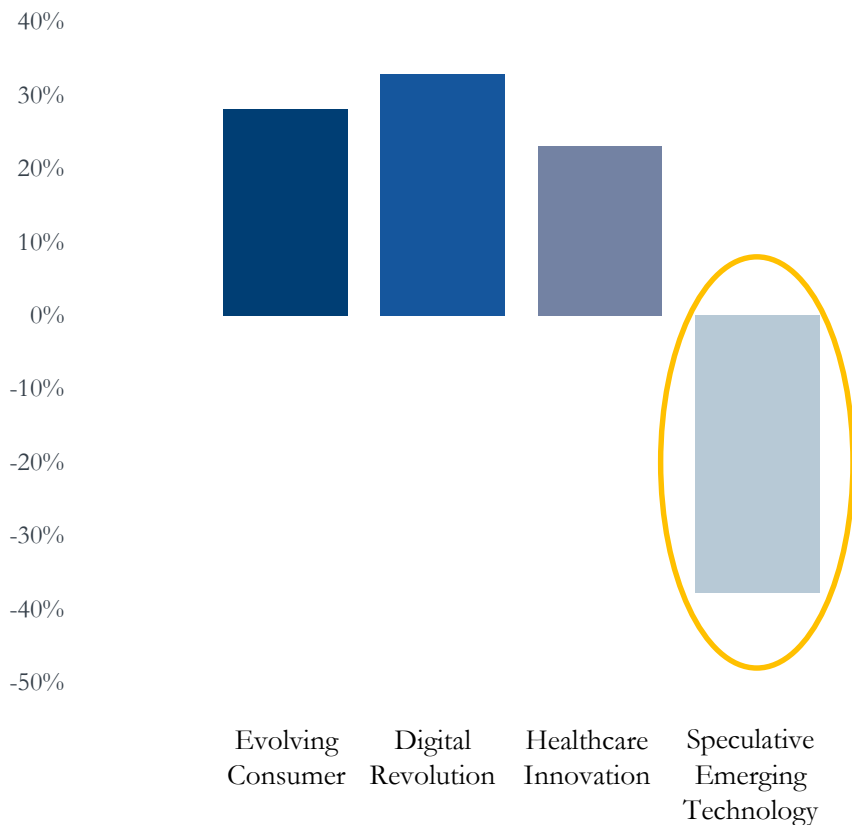
Source: Bloomberg, U.S. Census Bureau.

Focus On High Quality Companies, Reasonable Valuations

- Speculative emerging technology stocks are unprofitable but highly valued
- Preference for established, profitable companies expected to benefit from key trends

Profitability: Return on Equity

Valuations: Price to Earnings Ratio



Source: CNR Research, Bloomberg.

Evolving Consumer, Digital Revolution, and Healthcare Innovation are equal-weighted portfolios of stocks the CNR has identified as fitting within these themes. Speculative Emerging Technology is an equal-weighted portfolio of companies that CNR has identified as less proven business models trading at high multiples with limited profitability.

Questions?

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Index Definitions

The Standard and Poor's 500 Index (S&P 500) is a market capitalization-weighted index of 500 common stocks chosen for market size, liquidity, and industry group representation to represent U.S. equity performance.

The S&P 500 Growth Index is a market capitalization weighted index. All the stocks in the underlying parent index are allocated into value or growth. Stocks that do not have pure value or pure growth characteristics have their market caps distributed between the value & growth indices. Prior to 12/19/2005 this index represented the S&P 500/Barra Growth Index.

The Dow Jones Select Dividend Index seeks to represent the top 100 U.S. stocks by dividend yield. The index is derived from the Dow Jones U.S. Index and generally consists of 100 dividend-paying stocks that have five-year non-negative Dividend Growth, five-year Dividend Payout Ratio of 60% or less, and three-month average daily trading volume of at least 200,000 shares.

The Bloomberg Barclays U.S. Corporate Bond Index is an unmanaged market-value-weighted index of investment-grade corporate fixed-rate debt issues with maturities of one year or more.

Bloomberg Barclays U.S. Corporate High Yield Index is an unmanaged index that is comprised of issues that meet the following criteria: at least \$150 million par value outstanding, maximum credit rating of Ba1 (including defaulted issues), and at least 1 year to maturity.

ICE BofAML High Yield US Emerging Markets Corporate Plus Index tracks the performance of US dollar denominated below investment grade emerging markets corporate debt publicly issued in the US domestic or eurobond market.

The Palmer Square CLO Debt Index is designed to reflect the investable universe of US CLO mezzanine original rated A, BBB and BB debt issued after Jan 1, 2011.

S&P Leveraged Loan Indexes (S&P LL indexes) are capitalization-weighted syndicated loan indexes based upon market weightings, spreads, and interest payments. The S&P/LSTA Leveraged Loan 100 Index (LL100) dates back to 2002 and is a daily tradable index for the U.S. market that seeks to mirror the market-weighted performance of the largest institutional leveraged loans, as determined by criteria. Its ticker on Bloomberg is SPBDLLB.

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